IV. FULLY DISTRIBUTED COST IS APPROPRIATE AND SHOULD BE USED

Sprint asserts that services and assets that do not qualify for affiliate pricing under alternative tests should be transferred at Fully Distributed Cost ("FDC"). Sprint agrees that the hierarchy of pricing recognition should continue to be: first, tariff; second, prevailing price; third, FDC; and fourth, for assets the higher or lower of FDC or EFMV depending on the direction of the transaction.

Sprint agrees that the definition of original cost should be the cost of the resource less any accumulated depreciation.[32] To this original cost should be added the other elements that result in FDC.

With regard to chaining transactions, the Commission proposes to require carriers to calculate the costs of resources obtained from other affiliates in accordance with the NPRM's proposed calculation methods.[33] LECs would be required to trace resources used in affiliate transactions to determine whether the resources had previously been transferred in an affiliate transaction. If so, the LEC would have to value the resources, as of the time of each transfer, to determine the transferor's tariff rate, prevailing company price, FDC, or EFMV for purposes of

---

32. Id. para. 52.

33. Id. at para. 49.

determining which of the costs of affiliate transactions may be properly recognized.

Alternatively, the Commission proposes that all resources used in affiliate transactions be valued at their original cost to the affiliate group, regardless of whether they had previously been a part of an affiliate transaction.[34] Sprint supports adoption of this alternative methodology. This methodology will be less costly and administratively burdensome upon LECs than the tracing proposal and will still provide the Commission the means to test the transaction for any improper cross-subsidization.

The return component used in the FDC calculation should be a blended return that reflects, proportionately,[35] the split between the interstate and intrastate use of the product or service. If the Commission mandated that only the interstate return be used in calculating the allowable return on affiliate transactions, the Commission would not be providing a means to recognize the difference between authorized state returns and the interstate return. This would cause a mismatch between what is allowed by the states and what the Commission allows as to rate of return recognition in affiliate transactions. Further, use of a blended rate of return produces a uniform methodology that appropriately

---

34. Id. at para. 50.

35. Id. at paras. 66-71.

recognizes both state and federal interests and is useful and fair in both jurisdictions.

The interstate ratepayer is not harmed by this procedure because the interstate expense allocation is weighted at the interstate allowed return of 11.25 percent. Thus, Sprint strongly recommends that the Commission not preclude the use of a blended state and interstate return that recognizes the return allowances of each jurisdiction.

Finally, the generic rate base described in the NPRM should not be adopted. The United States Telephone Association, working with Commission staff, has already developed a generic rate base.[36] If the Commission feels compelled to adopt a rate base methodology for nonregulated affiliates, it should adopt the methodology already developed by USTA.

V. NONREGULATED TO NONREGULATED TRANSACTIONS DO NOT NEED TO BE SUBJECT TO THE AFFILIATE TRANSACTION RULES

The Commission proposes to apply the affiliate transaction rules to transactions between nonregulated affiliates and nonregulated operations within carriers that record their costs in

36. USTA Accounting and Finance Committee Bulletin No. 92-8 at Attachment 3.

regulated accounts.[37] The Commission believes that such application is necessary because nonregulated to nonregulated transactions can impact interstate costs recorded in USOA accounts through their affect on the overall apportionment of costs between regulated and nonregulated activities. Additionally, the Commission is concerned that such transactions may affect USOA cost accounts if the transactions are links in transactional chains that result in costs being recorded in USOA accounts.

The Commission's concerns are overstated, and the proposed solution places a far greater burden on LECs than can be justified by the minimal risks, and insignificant exposure those risks could create. Any potential cross-subsidization risks that could be created by chaining transactions are eliminated by the existing requirement that LECs must disclose all nonregulated to nonregulated transactions in their CAM[38] and by Sprint's proposal

---

37. NPRM at para. 108. Additionally, at para. 107, the Commission implies that it has always been the Commission's intent to cover such nonregulated to nonregulated transactions by the affiliate transaction rules. Sprint does not believe the record supports such an implication. See, In the Matter of United Telephone System Companies' Permanent Cost Allocations Manuals For The Separation of Regulated and Nonregulated Costs, AAD 90-22, Order, 7 FCC Rcd 4370 (1992) ("United CAM Order") where the Common Carrier Bureau stated ". . . contrary to the apprehensions of several of the parties to the instant proceeding, requiring a carrier to list an affiliate transaction in the CAM does not make that transaction subject to s 32.27. Section 32.28 affects only transactions that are recorded in regulated accounts. When a carrier provides a nonregulated service to its affiliate and records the transaction in a nonregulated revenue account, s 32.27 does not apply." (para. 12).

38. United CAM Order at para. 11.

herein that in chaining transactions original cost to the affiliate group should be used. Thus the benefit, if any, to be gained by subjecting nonregulated to nonregulated transactions to the rules is so minimal that it cannot be justified in light of the significant costs, both time and money, the LECs will incur to comply.

Under the Commission's proposed rules, if the nonregulated to nonregulated transaction involves either an asset or a service, the LEC will have to go to the considerable time and expense to calculate both the FDC (or net book cost for asset transfers) and EFMV. As discussed above, determining EFMV for services is costly and produces highly questionable results. Even under the existing rules, the LEC would have to calculate FDC for a service. While the results of such calculations are certainly more reliable than EFMV for a service, the calculations are produced only after significant time and expense. This is especially true when the service provider is not a regulated company and does not routinely possess the accounting systems and details necessary for an FDC type of calculation.

Accordingly, Sprint opposes the Commission's proposal to subject nonregulated to nonregulated transactions to all of the affiliate transaction rules.

VI. AFFILIATE TRANSACTION VALUATION CHANGES ARE EXOGENOUS

The Commission seeks comment on its proposal to treat as exogenous, changes, if any, to affiliate transaction valuation methods caused by this proceeding.[39] Sprint agrees with the Commission's proposal. The Commission's proposed changes to valuation methods for affiliate transactions will change the USOA requirements for affiliate transaction accounting. The Commission has already determined that changes to the USOA should generally be treated as exogenous.[40] Additionally, such treatment is consistent with the Commission's definition of exogenous changes as those "that are triggered by administrative, legislative, or judicial actions beyond the control of the carriers."[41] While Sprint adamantly opposes the proposed valuation method changes, if the same, or other changes are adopted, such changes must be treated as exogenous.

VII. AFFILIATES THAT MEET THE "BRIGHT LINE" TEST DO NOT HAVE TO BE SEPARATELY IDENTIFIED IN THE CAM

The Commission proposes requiring Tier 1 LECs to separately identify, in their CAMs, those nonregulated affiliates that meet whatever "bright line" test, if any, the Commission ultimately

---

39. NPRM at para. 36.

40. See, 47 C.F.R. Section 61.44.

41. In the Matter of Policy and Rules Concerning Rates for Dominant Carriers, CC Docket 87-313, Second Report and Order, 5 FCC Rcd 6786 (1990) at para. 166 ("LEC Price Cap Order").

adopts. As set forth in the NPRM, only those affiliates that meet the bright line test will be able to use the prevailing company price valuation methodology. Sprint opposes the Commission's proposed CAM requirement. In their CAMs, Tier 1 LECs must already identify all affiliate transactions and describe, for nonregulated to regulated transactions, the terms of the transaction, including specifically under which of the Commission's prescribed valuation methods the transaction was valued. Thus, if the Commission adopts a "bright line" test as proposed, Tier 1 LECs will already indicate which nonregulated affiliates meet that test, because those will be the only affiliate transactions for which prevailing company price is listed as the valuation method. No additional requirements are necessary.

VIII. QUANTIFICATION OF THE COMMISSION'S PROPOSALS IS UNWARRANTED

The Commission invites commenters to quantify the impact on the USOA accounts that the proposed valuation methods would have and delegates to the Common Carrier Bureau the authority to require such a quantification.[42] Sprint opposes any requirement that such a quantification be provided.

The Commission does not suggest what benefit such a quantification would produce. Sprint does not believe there is any benefit. Furthermore, the valuation methods proposed will impact

42. NPRM at para. 109.

a substantial number of transactions for each United and Central Telephone company. If each of them is required to quantify the changes the proposals will bring, the burden of doing so will be significant and far exceed any benefit the Commission might see from such a quantification. The LECs should not be required to perform such unnecessary and costly exercises.

IX. CONCLUSION

The Commission's existing affiliate transaction rules effectively protect against cross-subsidization. This is especially true with the addition of price cap regulation that incents LECs to reduce costs and disincents LECs from shifting costs from nonregulated to regulated activities. Accordingly, no changes or additions to the existing rules are necessary or warranted.

A 75 percent sales to nonaffiliates benchmark for the use of prevailing company price is unwarranted. Actual sales to nonaffiliates in a competitive market place establish true market price that should be available for use to affiliates and nonaffiliates alike. However, in the absence of tariffs, sales to nonaffiliates, or the EFMV of assets, the fully distributed costing methodology is appropriate.

EFMV should not be adopted as a valuation methodology for services. Use of such a tool for services will produce unreliable results because it requires arbitrary decisions regarding the comparability, availability, and capability of services.

The Commission should allow LECs to use a blended interstate and intrastate rate of return component in calculating FDC. Finally, the commission should not subject nonregulated to nonregulated transactions to all the affiliate transaction rules.

Respectfully submitted,

SPRINT CORPORATION

By Jay C Keithley

Jay C. Keithley
1850 M Street N.W.
Suite 1100
Washington, D.C. 20036
(202) 857-1030

W. Richard Morris
Craig T. Smith
P. O. Box 11315
Kansas City, MO 64112
(913) 624-3096

Its Attorneys

December 10, 1993

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of Amendment of Parts 32 and 64 of the Commission's Rules to Account for Transactions Between Carriers and Their Nonregulated Affiliates	)	CC Docket No. 93-251

STATE OF KANSAS)
) ss.
COUNTY OF JOHNSON)

AFFIDAVIT OF
STEVE L. MCMAHON

I, Steve L. McMahon, testify and attest to the following:

1. I am Executive Vice President - Operations of North Supply Company. My office is at 600 Industrial Parkway, Industrial Airport, Kansas 66031. North Supply Company is a wholly owned subsidiary of Sprint Corporation and is affiliated with the United and Central Telephone companies.

2. In my current position, I am responsible for North Supply sales to regulated affiliates and non-affiliates. I have been in this position for three (3) years. In total, I have been employed in the telecommunications products and services business since 1970. During this period I have been employed in the following capacities: sales, operations, budgets, engineering, construction, logistics, customer service, marketing, and policy.

3. During my career I have had the opportunity to evaluate the services provided by North Supply from both the perspective of a buyer and a seller. I know what the United Telephone companies require from North Supply in order to win their business and I know North Supply's cost of providing service to the United Telephone companies. I also know the pricing policy of North Supply relative to its regulated LEC affiliates and to non-affiliates. A copy of the pricing policy to affiliates is attached as Exhibit 1.

4. North Supply Company must compete with non-affiliated telecommunications product and equipment suppliers for the business of the United and Central Telephone companies. Each of these companies is free to, and indeed does purchase needed equipment and supplies from companies other than North Supply.

5. North Supply does not automatically receive the business of its affiliates. Indeed, North Supply must make sales calls and provide a high level of service as well as a fair price in the marketplace in order to win the business of the United and Central Telephone companies.

6. In the Commission's Notice of Proposed Rulemaking at paragraph 18 the Commission assumes that "sales between affiliates usually do not require extensive marketing efforts and generally involve lower transactional costs than sales to non affiliates." In the case of North Supply, this assumption is not true. North Supply has a dedicated sales force that markets

extensively to the United and Central Telephone companies. Indeed, in order to keep this set of customers satisfied, North Supply has implemented a customized, mechanized on-line ordering system to speed ordering and delivery. While this system has aided North Supply by meeting the United and Central Telephone companies' expectations, and is available to other North Supply customers, it has also added costs to North Supply. The costs of transaction processing and marketing to affiliates does not materially differ from that involved in non-affiliate marketing.

7. In Paragraph 18, the Commission goes on to note that "In many instances, moreover, the affiliate relationship reduces the suppliers' business risk." This assumption is not true of North Supply Company's relationship with the United and Central Telephone companies. North Supply Company does not have any guaranteed purchase agreements with its regulated affiliates although it does have such arrangements with some non-affiliates. Thus, without guaranteed purchase arrangements, North Supply Company's risk is increased, not reduced, with its regulated affiliates.

8. In my previous job, I worked as Vice President - Operations for the Midwest Group of United Telephone. As an executive at Midwest Group, I looked long and hard at how to minimize the equipment and supplies expenses of Midwest Group. My peers in the other United companies did likewise. If North Supply did not provide the best value for the purchasing dollar,

I purchased elsewhere. Nothing has changed to modify this approach.

9. North Supply has two primary functions within the Sprint family of companies. First, North Supply aims at providing equipment and supplies to the United and Central Telephone companies for prices that will minimize their expenses. And second, North Supply aims at aggressively selling equipment and supplies to non-affiliates and bringing profit to the bottom line of Sprint Corporation, the owner of North Supply. These two goals are compatible.

10. As a former United Telephone company executive, I understand that telecommunications equipment and services are sold for less per unit when purchased in volume. In general, the greater the volume, the lower the price. For example, from my experience, the Midwest Group of United Telephone could not purchase the broad mix of telecommunications products as inexpensively as United Telephone of Florida, a significantly larger company. And, as would be expected, the combination of all United Telephone companies can purchase at a lower cost per unit than any one company standing alone.

11. The Sprint Local Telecommunications Division staff, often in concert with North Supply, negotiates volume purchase agreements with manufacturers. North Supply fulfills the order processing, warehousing, inventory, and risk management function in connection with these volume agreements. Often North Supply

is able to add additional non-affiliate volume to the proposal and negotiate even better pricing from manufacturers then the affiliate volume alone would justify. North Supply Company has entered into a contract with Southern New England Telephone Company for the purchase of fiber cable which has allowed North Supply Company to negotiate cost reductions of approximately 11.2% for its affiliates. North Supply Company has further contracted with Pacific Bell to provide its tool requirements which has allowed volume pricing discounts for different items up to a 26.2% price advantage. Further, through a contract with AT&T, North Supply Company has been able to lower affiliate pricing between 13% and 34% on the various items encompassed in the AT&T contract. Through this volume purchasing power, the United and Central Telephone companies have access to prices that are very favorable to them.

12. Because North Supply must meet two goals, providing equipment and supplies to affiliates at fair prices and returning a profit to Sprint, a pricing policy that facilitates these goals is necessary. North Supply's pricing policy is: Products and services sold to affiliates are at prices no greater than similar products or services sold to non-affiliate customers under like terms, conditions or volume.

13. North Supply operates in a very competitive environment. Many non-affiliate suppliers successfully compete for sales to affiliates as well as in the broader market. North Supply com-

pletes with other large vendors, such as Greybar and Anexter for the business of both its regulated affiliates and non-affiliates. North Supply is successful in this broader market with steadily increasing sales to non-affiliates. Over the past 22 years since North Supply began to do more than act as the supply arm of the United Telephone companies, North Supply has reached the point where 61 percent of its sales are to non-affiliates. Non-affiliate customers of North Supply include Pacific Bell, Southern New England Telephone, TDS, Citizens Telephone, and AT&T. In fact, North Supply was awarded the Quality Award from Pacific Bell both in 1991 and 1992. The award is for exemplary service levels, problem resolution, and accuracy and receipt of the award demonstrates that non-affiliate business is an important part of North Supply's operation. Because of this experience in the broader market, North Supply is very familiar with market based pricing.

14. North Supply experiences the pressure of competing in the broad telecommunications equipment and supply market. I can assure the Commission that the bright line test of 75 percent of sales to non-affiliates is grossly in excess of what is needed to ensure that if similar pricing is given to both affiliates and non-affiliates that the pricing is based on market realities.

15. The Commission questions at paragraph 89 whether 25 percent should be the correct proportion of sales to non-affiliates so that the price may be considered the prevailing

market price. In my view, actual sales to non-affiliates in a competitive marketplace is ample evidence that the same price to affiliates is a prevailing and fair market price. North Supply will lose this non-affiliate business to another supplier if it is not competitive in the marketplace. I believe that the 75 percent "bright line" test is clearly excessive.

16. Because I have worked in this industry for several years, I am familiar with the structure of the supply and distribution affiliates of other large telecommunications companies. To my knowledge, North Supply is the largest and one of two or three LEC affiliated supply and distribution companies that make substantial sales to non-affiliates in the open market. The Commission's concerns that some LECs and their affiliates may abuse the current pricing rules should not cause the Sprint LECs to lose the benefits they derive from the operations of North Supply, the company best suited through its success in the open market to prove that it has prevailing prices.

17. The creation of a system that would provide estimated fair market value ("EFMV") is an expensive effort with little if any value when actual sales to non-affiliates in a competitive marketplace are occurring. Indeed, in the telecommunications equipment and supplies sector, I believe my competitors would provide what I call "entry level pricing" quotes in response to such inquires. As anyone who competes for new customers knows, firms often provide special deals to attract business and to

disrupt current supply arrangements. They, in effect, price below cost to gain entry into the supply channel. This entry level pricing disrupts relationships but does not last. Soon, this price is raised. Under these circumstances, the purchaser may be worse off because the original supplier is no longer able to provide the product at the previous price, either because the first supplier has been forced from business or because, due to lost volumes, it must pay more for the product. Thus, entry level pricing is <u>not</u> a dependable EFMV. However, firms desiring to expand have a great incentive to quote entry level prices to gain entry.

18. North Supply pricing is routinely and thoroughly investigated in reviews sponsored by state and federal regulators. Since 1975, after continuing reviews, the pricing of North Supply to affiliates has always been found to be reasonable and no adjustments have ever been made to the United Telephone accounts on account of purchases from North Supply.

19. I further believe that earnings incentives such as true price caps provide far better and far less expansive controls on potential affiliate pricing abuses than complex, expensive, intrusive, and unneeded estimates of fair market value or the ex-

cessive requirements of 75 percent of sales to outside markets can provide.

Steve L. McMahon

Steve L. McMahon
Executive Vice President - Operations
North Supply Company

STATE OF KANSAS)
)
COUNTY OF JOHNSON)

Subscribed and sworn to before me, a Notary Public, this 8th day of December, 1993.

Iris P. Ash

Notary Public

NOTARY PUBLIC STATE OF KANSAS
IRIS P. ASH
My Appt. Exp. March 1, 1996

My Commission Expires:
March 1, 1996

North Supply
A Sprint Company

EXHIBIT 1 to ATTACHMENT 1

Interoffice Correspondence

DATE: December 15, 1992

TO: Steve McMahon
Jerry Carson

FROM: Bob Thompson

SUBJECT: Price Policy

Effective January 1, 1993, North Supply's Telco division will operate under the following price policy:

> Products and services sold to affiliates are at prices no greater than similar products or services sold to non-affiliate customers under like terms, conditions or volume.

This policy will be monitored on a company-wide basis by the Strategic Pricing Group, currently within the Telco division. The Strategic Pricing Group's function is to manage this policy relative to regulatory compliance and prevailing market conditions. Divisional sales groups are ultimately responsible for specific quoted or contracted pricing decisions. The Strategic Pricing Group performs a consultative role, providing a regulatory and market condition framework within which individual pricing decisions should reside.

The divisional sales teams should anticipate the need to administratively support Strategic Pricing Group practices and procedures in the form of documentation adherence and maintenance. The Strategic Pricing Group is prepared to meet with individual sales groups to review these documentation practices.

clm

Bob Thompson

Attachment

cc: Bill Obermayer
Terry Bryan
Vahid Rezvani
Flem Cheatham
Brad Sumner
Adel Rizk

NORTH SUPPLY COMPANY

General Price Policy

Prices for North Supply products and services are based on prevailing competitive market conditions for similar product/service group sales.

Affiliate Price Policy

Products or services sold to affiliates are at prices no greater than similar products or services sold to non-affiliate customers under like terms, conditions or volume.

These two general statements reflect the pricing policies in operation for North Supply. This narrative is written for the purpose of adding clarity and understanding to these broad general statements. The reader of this document is intended to be a member of North Supply's management team. The reader's experience and knowledge of North Supply is necessary to decipher terminology and to apply the dynamic market conditions against our internal operating procedures.

The reader should know a separate document has been written for the benefit of those external to North Supply whose familiarity with procedures and daily market conditions may not be as thorough. The content of both documents is intended to be the same. A broader level of explanation is thought to be more useful (less interpretive) for the external readers.

The General Price Policy uses the term "prevailing competitive market conditions." What are prevailing competitive market conditions?

Prevailing Competitive Market Conditions

These conditions are the most generally existing terms of sale (including prices) that exist for a specific product or service at a given point in time. The North Supply prices that are considered system prices, i.e., affiliate (A) and non-affiliate (NA) are intended to represent prevailing competitive market conditions for a traditional wholesale distribution sale.

Certainly, there are numerous individual customer conditions and circumstances which do not fall into the traditional wholesale distribution sale category. These are considered to be the minority and are measured in terms of their difference from market conditions on a case by case basis. The fact remains, however, that our system pricing cannot address the numerous exceptions. It must address the vast majority of transactions we execute relative to prevailing market conditions.

To that end, we designed a data program whose objective is to measure the market competitiveness of our system pricing. It is called "Price Baskets" and it is currently being managed by Rick Crawford in the Telco Operations division under the supervision of Bill Byers.

Prior to price baskets, the capture and analysis of market conditions for a given product was very informal. It often relied on a product marketing person's retention level of occasional feedback. And, as you can appreciate, with 30,000+ products this is very difficult. Price baskets allow feedback to be placed against historical data and possibly stimulate adjustments in our system prices.

It is important to understand that price baskets measure North Supply sales activity. Price baskets do not directly measure our competitors' sales. Price baskets directly confirm or deny that North Supply's system prices are prevailing competitive market prices by analyzing the market distribution of North Supply sales. Lost business can be placed against price baskets to conclude if lost revenue resulted in lost profits to North Supply. Before baskets, this tool was not readily available.

Price Baskets

The FCC has become very sensitive to sales from a deregulated entity to an affiliated regulated entity at prices above market levels. Regulations (86-111) exist prohibiting such activity.

Price baskets were created out of a need for North Supply to know whether we were in compliance with FCC regulation 86-111. Generally, this regulation requires that 20% of our sales of like products or services be to non-affiliated markets at or above affiliated price levels.

To verify that this was occurring, the price basket program was created. There are 305 baskets. One is a drop ship basket. Three hundred and four of the baskets contain inventoried items only. To the best of our ability, each stock basket contains like products--all the screwdrivers are in one basket of screwdrivers. The stock basket components are represented by material codes and related vendor number.

The single drop ship basket measures all drop shipments. The scope of the drop ship transactions and the variables associated with individual drop ship products do not provide for comparability with inventory transactions. The administration of pricing policy by the part numbers or groups of part numbers which comprise the baskets used for inventory transactions likewise does not lend itself to drop ship transactions. Recognizing these limitations, North Supply administers its pricing policy for drop ship transactions as a single service basket.

The price basket reports record the accumulated sales year to date of each basket for Sprint OTC, Sprint LDD and the combined non-affiliate market. If 20% or more of the basket sales were to the combined non-affiliate market at or above affiliated price levels, then the basket and its individual components are considered to be at market level and in compliance with the FCC.

If the basket sales to the combined non-affiliate market is less than 20% or at prices below affiliate sales, then there is analysis of the basket required, documentation and possibly corrective action to create a confirmed market price in compliance with regulatory statute.

Since the basket measures all sales and all sales are not at system prices (A, NA), the basket program has an option to exclude any sales entered into the special price files. Sales which are entered into special price files are, therefore, subtracted from the full (all sale) basket. The result is ideally a price basket which records all the transactions made at the system (loaded) price (A, NA) levels. This is exactly what we want to measure. If system prices (A, NA) are too high the baskets could reflect this in several ways:

1. Less than 20% will be sold into NA markets.

2. A decline in total basket sales may occur.

3. A large number of entries into the special price file.

If system prices are too low, the basket may detect this by:

1. A significant increase in basket sales for no other reason, or

2. A wide spread in non-affiliate margins versus affiliate margins.

3. Few, if any, entries into the special price file.

From a marketing perspective, the baskets can serve as a warning or an organized way of detecting possible change in the market price.

Special Price Files

The importance of a special price file entry by all sales groups cannot be overstated. If special prices are authorized and not entered into a special price file, they will not be subtracted from the basket. This will drive the non-affiliated prices down exerting unwarranted downward pressure on affiliated price levels and North Supply profits. It is absolutely essential that all sales groups properly manage special price file authorization and entry.

When are special prices (non-system prices) justified for a non-affiliated opportunity?

The easiest answer is when North Supply can generate more profit by selling to the non-affiliate and all the affiliates at the special price than we can by selling to the affiliates at the existing system price under the affiliated terms and conditions of sale.

Each division must make their own determinations on a case by case basis. But, as a special price decision is selected, it is a mandatory requirement to clearly document the applicable different terms, different volume which is supporting this lower than system price. It is also mandatory that a special price be entered into the special price file. This entry is a part of the documentation requirement.

Keep in mind that a position could be taken to lower the system price rather than load a special price. This would be applicable in cases where volume is the only different criteria. The non-affiliated opportunity may coincide with a price basket situation which is out-of-balance. In such a case, the non-affiliated opportunity may be a catalyst to prompt a lowering of system price.

In addition to volume, there are three other identifiable different terms or conditions which may qualify for special prices.

1. When freight which is normally absorbed in the price of the product is paid by the customer.

   Since surface freight from the distribution centers is not charged to the affiliated system, a lower affiliated price can be offered to any non-affiliated customers willing to pay freight. The percent difference between the current A price and the special non-affiliated offered price must equate to the freight expense of an anticipated typical shipment. The Traffic department will be required to qualify that expense. Therefore, a projected typical shipment expense as a percent of the affiliated price must be determined for the product(s) offered on a freight paid basis. Proper documentation is required.

2. When a hard contract (take or pay) is negotiated with a non-affiliated customer.

   Affiliates do not guarantee that they will purchase any fixed quantity from NSC. A non-affiliate that commits to x quantity over a y contract period can be offered a better price than the affiliate when:

   A. X quantity is greater than the affiliate's prior annual usage.

   B. The product in question is not an affiliated standardized product.

   Again, a contractual commitment implies there is documentation available to support this non-affiliated customer guarantee.

3. When a vendor has identified a specific non-affiliated opportunity as qualifying for a lower cost of goods than North Supply currently receives from that vendor for the affiliated market.

   In these cases, it is assumed the vendor is willing to pass that lower cost to North Supply. North Supply, in turn, may lower its offered sell price to the non-affiliate by no greater a percentage than it received from the vendor.

   Again, proper documentation is required.

Conclusion

The objective of system pricing, price baskets and special price files is to provide the means to measure market price and to implement pricing in order to achieve our financial objectives. These tools are not intended to restrict sales. They are intended to maximize the profitability of the company in all markets. They must be managed in concert with one another to be effective. If any one of them is analyzed by itself, the dynamics of market price becomes undervalued.

The procedures and practices which support these concepts follow. The management of these procedures and practices belongs to all sales and marketing personnel. Since these are relatively new, they are subject to some modification and evolving improvement. This is encouraged. Submit any concerns or questions to Rick Crawford or Bill Byers.

An Assessment of the FCC Notice of Proposed Rulemaking on the Affiliate Relationships of Sprint North Supply Company

Gregory Loyd Mann, Ph.D.
Managing Vice President
Greenwich Associates

Introduction

On October 29, 1993 The Federal Communications Commission issued a **Notice of Proposed Rulemaking** for comment by interested parties to Proceeding FCC93-251. Sprint Corporation engaged **Greenwich Associates** to assist its staff in the preparation of a response. One area of general concern expressed by Sprint management was the FCC proposed restriction on the use of Prevailing Company Pricing (PCP) methods to relationships where the non regulated affiliate sells at least 75% of its output to non-Sprint enterprises (hereafter referred to as non affiliate sales). The FCC argues that restriction on the use of Prevailing Company Price is warranted given

- the inconsistent treatment of prevailing company pricing methods by affiliates with each other; and

- the unnecessary burden it presents to both the Commission and the carriers to differentiate and administer

Ostensibly, the FCC proposed restriction offers the agency the means to improve reporting and monitoring of the carriers' relationships with their affiliates. However, it is our professional opinion that further restriction on the use of PCP is unwarranted and unnecessary to the achievement of better reporting and monitoring of affiliate transactions.